

ECS1500

MOCK EXAM PAPER 2

Note that the answers to the question are provided at the end of the paper.

To test if you are ready for the examination we suggest that you create a simulated examination situation. Give yourself two hours to do the paper and do not refer back to the study material. Use the answers at the end to evaluate your performance to decide if you are ready for the exam and which sections you still need to revise.

Write the answers for each question on the answer sheet provided at the end.

1. Scarcity applies to the poor only.
 1. True
 2. False
2. A decrease in the supply of apples is illustrated by an upward or a leftward shift of the entire supply curve.
 1. True
 2. False
3. The four factors of production are land, labour, entrepreneurship and capital goods.
 1. True
 2. False
4. If the supply of, as well as the demand for apples were to increase, there would be a decrease in the price of apples, but the direction of the change in the equilibrium quantity of apples would be impossible to predict accurately.
 1. True
 2. False
5. A lower tea price will shift the demand curve for tea to the right.
 1. True
 2. False
6. Elasticity is a unit-free measure.
 1. True
 2. False
7. An elasticity of 0, 5 can be described as “small”.
 1. True
 2. False
8. A price elasticity of demand = 0 can be described as perfectly elastic demand.
 1. True
 2. False

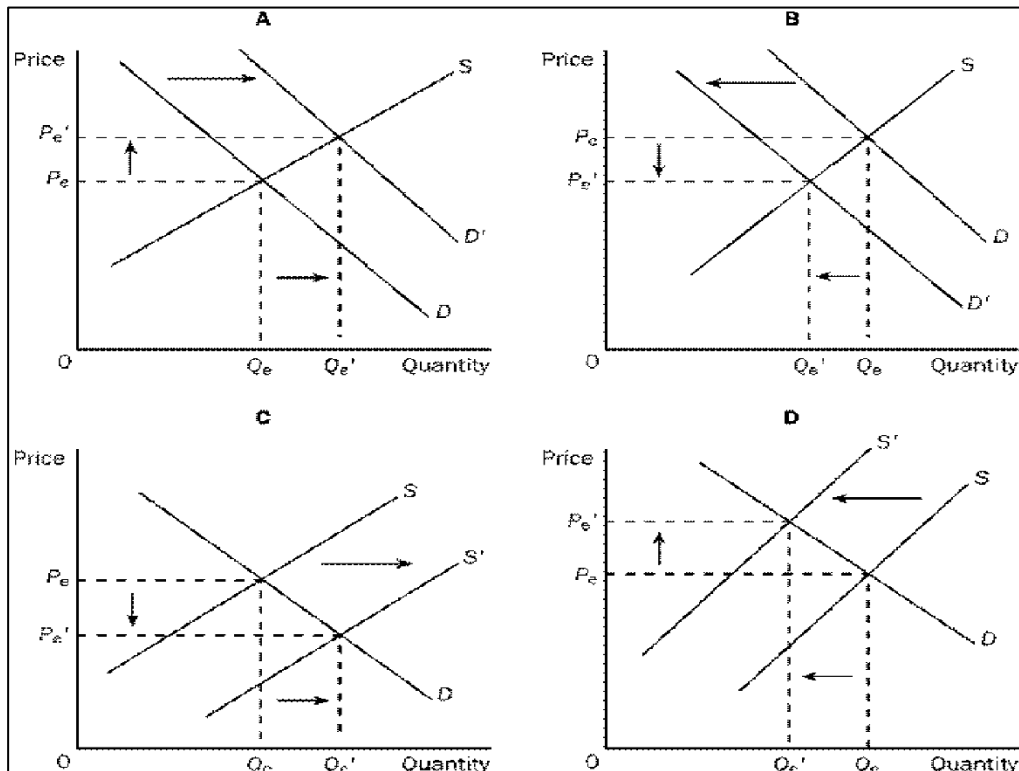
9. External equilibrium implies keeping the inflation rate as low as possible.
1. True
 2. False
10. GDP may be defined as the total value of all goods and services produced within the boundaries of a country during a certain period.
1. True
 2. False
11. The “economically active population” excludes those who are unemployed.
1. True
 2. False
12. The flow of goods and services between South Africa and the rest of the world is recorded in the financial account.
1. True
 2. False
13. A future contract is an example of a derivative instrument.
1. True
 2. False
14. An increase in South African imports from the United States will give rise to an increase in the demand for rand from such importers.
1. True
 2. False
15. According to the vertical equity rule rich people should pay more tax than poor ones.
1. True
 2. False
16. Stabilisation policy is enhanced by policy lags.
1. True
 2. False

17. Commodity money entails that the intrinsic value of the commodity is equal to the exchange value assigned to it.
1. True
 2. False
18. Commercial banks are responsible for issuing of notes and coins in South Africa
1. True
 2. False
19. When the rand/dollar exchange rate is known, enough information is available to determine the dollar/rand exchange rate.
1. True
 2. False
20. Absolute advantage implies comparative advantage.
1. True
 2. False
21. Which **one** of the following statements is **not** correct? The solution to the basic economic problem is found in the answers to the following questions:
1. Who should produce?
 2. For whom should be produced?
 3. How should there be produced?
 4. What should be produced?
22. Wants...
1. equals needs.
 2. equals necessities.
 3. equals means.
 4. are unlimited.
23. The market economy is regulated by...
1. the government.
 2. the minister of finance.
 3. profits.
 4. competition.

24. In every economic system ...
1. scarcity disappears with time.
 2. scarcity disappears when there is limitless spending power.
 3. scarcity eventually disappears in the government sector.
 4. scarcity never disappears.
25. The concept of opportunity cost arises from ...
1. limited wants.
 2. unlimited means.
 3. limited wants and unlimited means.
 4. scarcity.
26. A "mixed economy" refers to an economy where...
1. consumers are of different races.
 2. the public sector and the private sector coexist.
 3. there is demand as well as supply.
 4. prices can go up or down.
27. Which one of the following is **not** an important decision maker in the economy?
1. Households.
 2. Firms.
 3. Governments.
 4. The balance of payments.
28. Market equilibrium for a product implies ...
1. a price that cannot change.
 2. market forces at work to change the equilibrium price.
 3. government intervention.
 4. a balance between buyers and sellers at a certain price.
29. In a pure market economy ...
1. the government uses prices as a principal means of directing resources.
 2. the government determines prices.
 3. prices are the main mechanism of matching wants and resources.
 4. the economy is regulated by the self-interest of the government.
30. Which one of the following would most clearly represent a macroeconomic issue?
1. A big retailer reduces its selling price of bread.
 2. The GDP decreases.
 3. A major flu epidemic strikes the country.
 4. The state president resigns.

31. A decrease in the demand for milk (*ceteris paribus*) is represented by ...
1. an upward movement along the demand curve for milk.
 2. a downward movement along the demand curve for milk.
 3. a rightward shift in the demand curve for milk.
 4. a leftward shift in the demand curve for milk.
32. According to the law of supply, as the price of milk decreases, ...
1. the quantity supplied of milk will decrease.
 2. the quantity supplied of milk will increase.
 3. the supply of milk will decrease.
 4. the demand for coffee will increase.
33. If the income elasticity of a good is smaller than one, the product is definitely not ...
1. an essential good.
 2. an inferior good.
 3. a luxury good.
 4. a normal good.
34. If the price of coffee, a substitute in consumption for tea, increases, we would expect the equilibrium quantity of tea to ...
1. decrease.
 2. increase.
 3. stay the same.
 4. be indeterminate (increase or decrease).
35. Which of the following is **not** a function of the South African Reserve Bank?
1. Formulation of monetary policy
 2. Implementation of monetary policy.
 3. Banker for the government and other banks.
 4. Control of government spending.
36. Which of the following is **not** an example of a financial intermediary in the South African economy?
1. Stokvels.
 2. Development Bank of South Africa.
 3. Postbank.
 4. The Treasury.

Use the following graphs to answer questions 37 to 40.



37. Refer to graph A. Graph A indicates...

1. an increase in demand and an increase in quantity supplied.
2. an increase in demand and an increase in supply.
3. excess demand.
4. an increase in supply and an increase in quantity demanded.

38. Refer to graph B. The shift of the demand curve could be a result of ...

1. a decrease in the price of the product.
2. a decrease in the price of a complement.
3. an increase in the price of a complement.
4. an increase in the price of a substitute.

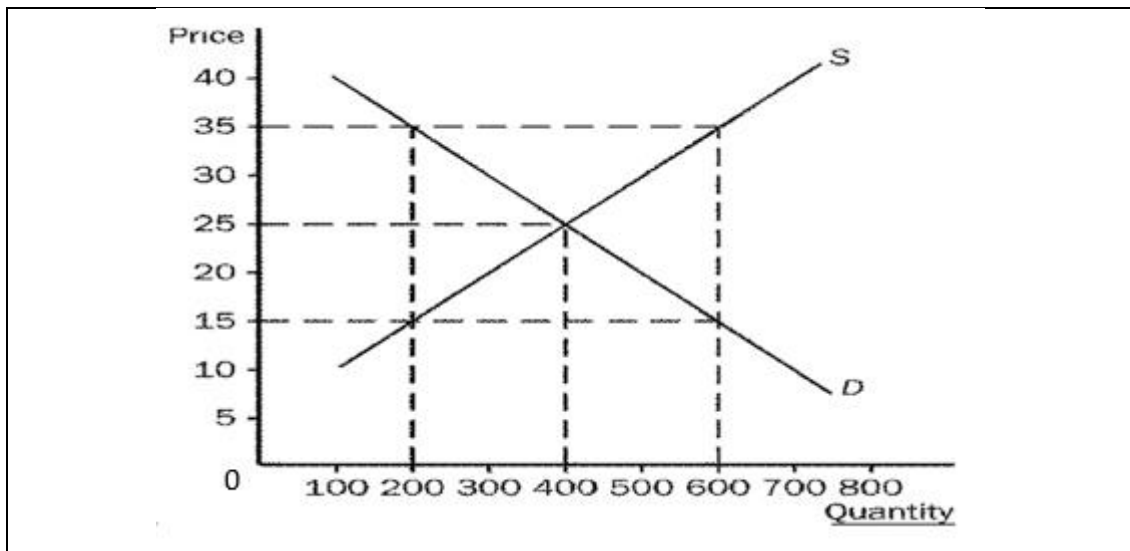
39. Refer to graph C. Graph C indicates ...

1. an increase in demand and an increase in quantity supplied.
2. an increase in demand.
3. excess supply.
4. an increase in supply and an increase in quantity demanded.

40. Refer to graph D. The shift of the supply curve could be a result of ...

1. an increase in the price of the product.
2. a decrease in the price of inputs.
3. cost increasing changes in technology.
4. a decrease in the price of substitutes in production.

Use the following graph to answer questions 41 and 42.



41. At a price of R25 ...

1. there would be a shortage of 400 units.
2. there would be a surplus of 400 units.
3. there would be equilibrium in all markets.
4. there would be an equilibrium in the market for the product.

42. The equilibrium quantity is ...

1. 200
2. 600
3. 400
4. 25

Suppose that the quantity of cheese demanded falls from 100 000 kg per week to 90 000 kg per week as a result of a 10% increase in its price. Use this information to answer questions 43 and 44.

43. The price elasticity of demand for cheese is ...

1. 10,0
2. 1,0
3. 11,0
4. 0,1

44. We know that cheese is...
1. an inferior good.
 2. a luxury good.
 3. a normal good.
 4. a substitute.
45. Which **one** of the following statements is not correct? If the quantity demanded of butter increase by 10% as a result of a 10% increase in the price of margarine, then...
1. the cross elasticity for butter is 1.
 2. demand elasticity cannot be calculated with the available information.
 3. supply elasticity cannot be calculated with the available information.
 4. butter is a complement for margarine.
46. If someone with an income of R100 000 pays R10 000 tax and the following year, when his income increases to R200 000, he pays R15 000 tax, the tax system can be described as ...
1. progressive.
 2. proportional.
 3. regressive.
 4. marginal.
47. If the total population is 30 million of which 20 million is between the ages of 15 and 64 years and 5 million are older than 64, the economically active population equals ...
1. 30 million.
 2. 25 million.
 3. 15 million.
 4. 20 million.
48. Frictional unemployment...
1. occurs when an individual chooses to be unemployed because of low wages.
 2. is the consequence of external disequilibrium
 3. arises as a result of fluctuations in the demand for goods and services.
 4. is not really considered as serious.
49. The Gini coefficient...
1. can vary between 0 and 100.
 2. allows comparisons of inequality in income distribution.
 3. is used to derive the Lorenz curve.
 4. equals the area of inequality .

50. Which of the following is **not** an element of a typical business cycle?
1. downswing.
 2. peak.
 3. boom.
 4. equilibrium.
51. GNI equals...
1. GDP plus primary income from the rest of the world minus primary income to the rest of the world.
 2. GDP plus primary income to the rest of the world minus primary income from the rest of the world.
 3. GDP plus primary income from the rest of the world plus primary income to the rest of the world.
 4. GDP minus primary income from the rest of the world plus primary income to the rest of the world.
52. When the consumer price index rises with 10%, it implies that ...
1. all prices increased by 10%.
 2. all prices increased.
 3. the producer price index increased by 10%.
 4. there was a decline in the real value of money.
53. Which one of the following does **not** form part of the M1 measure of money supply?
1. Notes and coins in circulation inside the monetary sector.
 2. Deposits of the domestic private sector with monetary institutions that can be withdrawn immediately.
 3. Transmission deposits of the domestic private sector with monetary institutions that can be withdrawn immediately.
 4. Cheque deposits of the domestic private sector with monetary institutions that can be withdrawn immediately.
54. Assume that changes in the consumer price index are considered as the measure of inflation. If the index was 200 in 2015 and 210 in 2016, what was the inflation rate?
1. 5%
 2. 10%
 3. 20%
 4. The inflation rate is impossible to determine without knowing the base year.
55. In a proportional tax system ...
1. the total amount of tax paid is constant as income decreases.
 2. the average rate of tax increases as income increases.
 3. the average rate of tax falls as income increases.
 4. the average rate of tax is constant as income increases.

56. Unrecorded transactions ...

1. are not recorded in the South African balance of payments.
2. are recorded in the financial account of the South African balance of payments.
3. are recorded in the capital transfer account of the South African balance of payments.
4. are a recording of errors and omissions.

57. Which of the following would **not** be included in the South African balance of payments?

1. A Britain earns income in South Africa.
2. A South African farmer sells his American-manufactured tractor to his neighbour.
3. A South African earns income in Britain.
4. An American purchases shares in a South African company.

58. If the rand depreciated against the US dollar, then ...

1. the US dollar has appreciated against the rand.
2. more US dollars are required to buy a Rand than before.
3. this will lead to a decline in exports by the United States to the Eurozone.
4. the euro has appreciated against the US dollar.

Suppose Botswana and Korea can produce only two possible products, maize and meat. If they devote all their resources to the production of maize, Botswana as well as Korea can produce 4 tons of maize per person-hour. If they devote all their resources to the production of meat, Botswana can produce 8 tons of meat per person-hour and Korea 12 tons. With reference to this information, answer questions 59 and 60.

59. Which one of the following statements is correct? Korea has ...

1. a comparative advantage in the production of maize and meat.
2. a comparative advantage in the production of meat.
3. an absolute advantage in the production of maize and meat.
4. an absolute advantage in the production of maize.

60. Which one of the following statements is correct?

1. Korea will specialise in the production of maize.
2. Botswana will specialise in the production of maize and meat.
3. Korea will specialise in the production of meat.
4. No specialisation is possible.

ANSWER SHEET

Indicate your answers to each of the questions in the "ANSWER" Column. Once you have answered all the questions, use the key on page 19 to mark your answers and evaluate your results:

Question	Answer	Learning Unit	If you had a particular question correct, place one tick for the correct answer in the block for that particular learning unit, as indicated by the example. The correct answers can be found in the table on the page 14.									
			1	2	3	4	5	6	7	8	9	10
1		1										
2		3										
3		1										
4		4										
5		3										
6		5										
7		5										
8		5										
9		6										
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21		1										
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25		1										
26		1										
27		1										
28		4										
29		1										
30		6										
31		3										
32		3										
33		5										
34		3										
35		9										
Totals for this page (add the correct ticks in each column and carry over to next page)												

Question	Answer	Learning Unit	If you had a particular question correct, place one tick for the correct answer in the block for that particular learning unit, as indicated by the example. The correct answers can be found in the table on the page 14.									
			1	2	3	4	5	6	7	8	9	10
Totals from previous page												
36		9										
37		4										
38		4										
39		4										
40		4										
41		3										
42		3										
43		5										
44		5										
45		5										
46		8										
47		7										
48		7										
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54		7										
55		8										
56		7										
57		10										
58		10										
59		10										
60		10										
Add the totals for each learning unit (a)												
Number of questions for each learning unit (b)			10	0	7	6	7	3	10	4	6	7
Percentage correct for each learning unit ($\frac{a}{b} \times 100$)												

CORRECT ANSWERS

Question	Answer		Question	Answer		Question	Answer
1	2		21	1		41	4
2	1		22	4		42	3
3	1		23	4		43	2
4	2		24	4		44	3
5	2		25	4		45	4
6	1		26	2		46	3
7	1		27	4		47	4
8	2		28	4		48	4
9	2		29	3		49	2
10	2		30	2		50	4
11	2		31	4		51	1
12	2		32	1		52	4
13	1		33	3		53	1
14	2		34	2		54	1
15	1		35	4		55	4
16	2		36	4		56	4
17	1		37	1		57	2
18	2		38	3		58	1
19	1		39	4		59	2
20	2		40	3		60	3

HOW TO INTERPRET YOUR RESULTS

The percentage that you obtained for each learning unit should provide an indication of whether you have mastered that learning unit.

If you obtained less than 70% for a particular learning unit, we recommend that you revise that learning unit carefully.

It is important to take note of the fact that certain learning units build on each other, e.g. learning unit 4 require a thorough understanding of learning unit 3, while learning unit 5 require a thorough understanding of both learning units 3 and 4.

We also recommend that you carefully consider each question that you answered incorrectly. If you do not understand why a particular option is the correct answer, you have to revise the study material for that learning unit carefully, and if you still do not understand it, you have to approach your fellow students, e-tutor and/or lecturer to help you solve this problem.